DECISION-MAKER:	COUNCIL
SUBJECT:	FINANCIAL STATEMENTS 2010/11
DATE OF DECISION:	13 JULY 2011
REPORT OF:	HEAD OF FINANCE (CHIEF FINANCIAL OFFICER)

STATEMENT OF CONFIDENTIALITY
NOT APPLICABLE

BRIEF SUMMARY

In accordance with the Accounts and Audit Regulations 2011 the Financial Statements 2010/11 were signed by the Chief Financial Officer on 30 June 2011. The Financial Statements will be submitted to the Audit Committee on 22 September and to Standards and Governance on 23 September. A copy of the draft unaudited Financial Statements is available in the Members Room.

Presenting the accounts at this time means that the Annual Audit, carried out by the Audit Commission, will not have been completed. Any major changes to the Financial Statements arising from the annual audit will be reported to the Standards and Governance Committee after the completion of the audit on 30 September 2011.

RECOMMENDATIONS:

It is recommended that Council:

(i) Notes that the Financial Statements 2010/11 have been signed by the Chief Financial Officer.

(i) Notes that the approval of the Financial Statements 2010/11 by the Standards and Governance Committee will take place on 23 September, subject to any changes required after the completion of the Audit. Any such changes will be presented to the Audit Committee.

REASONS FOR REPORT RECOMMENDATIONS

1. It is a legal requirement to that the Chief Financial Officer (CFO) sign the Financial Statements by 30 June 2011 and certify that they present '*a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year*'.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. The Financial Statements have been prepared in accordance with statutory accounting principles. No other options have been considered as it is a legal requirement that the Financial Statements are prepared and signed by the CFO by 30 June.

DETAIL (Including consultation carried out)

CONSULTATION

3. Not applicable

FINANCIAL STATEMENTS

4. The Financial Statements are complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Council are detailed below.

CHANGES TO THE 2010/11 ACCOUNTS

5. The Financial Statements for 2010/11 are the first to be prepared on an International Financial Reporting Standards (IFRS) basis, adapted for the public sector by the Code of Practice on Local Authority Accounting (The Code). This has resulted in the restatement of some opening balances and transactions, with the result that some prior year comparative figures in the Financial Statements for 2010/11 are different from the equivalent figures presented in the 2009/10 financial statements.

6. The Accounting Policies applied to the 2010/11 Financial Statements have been reviewed and changed, where appropriate, to comply with IFRS

The main changes are:

- **Property, Plant and Equipment** - Property, Plant and Equipment (previously known as fixed assets) 'have been renamed, reclassified and redefined. The Code also requires changes in the value of investment property to be charged, along with other expenditure and income from investment properties, to the Comprehensive Income and Expenditure Statement.
- **Cash and cash equivalents** - The definition of Cash and Cash Equivalents has changed and they are now represented by cash in hand, deposit accounts and Money Market Funds which are repayable without penalty on notice of not more than 24 hours.
- **Government Grants and Contributions** - Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable and any conditions have been met. Previously, unused grants were held in a Capital Grants & Contributions Unapplied account in the Liabilities section of the Balance Sheet until they were expended, at which point they were transferred to Government Grants & Contributions Deferred account and recognised as income over the life of the assets which they were used to fund.
- **Leases Reclassification** - As part of the implementation of IFRS the Council has reclassified a number of Plant and Equipment operating leases to finance leases.
- **Short-Term Accumulating Absences -** The Council has made an accrual for the cost of Teacher's Annual Leave entitlement not taken by the year end, in accordance with the Chartered Institute of Public Finance & Accountancy's (CIPFA) methodology. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which

the holiday absence occurs. No Accrual has been made in respect of annual leave and flexi-time carried forward by non-teaching staff as this is considered not to be material.

7. These changes have had no effect on the General Fund balances available to the authority or on Council Tax.

GENERAL FUND REVENUE EXPENDITURE AND INCOME

8. The Financial Statements present the Income & Expenditure Account in a statutory format which includes notional costs that have no impact on the Council Tax charge.

The table on page 4 of the Financial Statements presents the Council's expenditure and income in a format that shows the net impact on the General Fund Balance, compared to budget. This shows that the revised budget assumed a total contribution from reserves of £3.9M.

However, during the year, the Council has made changes to the revised budgets which were reported to Cabinet in February 2011. Compared to this working budget, the Council's actual expenditure for the year is £4.7M under budget and this is made up as follows:

	£ ,000s
Reductions in Portfolio Spending	2,485
Reduced Net Borrowing Costs Due to Lower Interest Rates and Re-phasing of the Capital Programme	1,652
Reduction and Re-phasing of Project Costs (Funded from within the Revenue Development Fund)	235
Unspent Contingencies	211
Other Variations	73
Total	**4,656**

9. Against this are requests to carry forward budget of £629,000 (of which £158,000 relates to central repairs and maintenance) which will be subject to approval by Council. Further draws on the overall favourable position of £4.7M (subject to approval by Full Council) include:

- Revenue Development Fund (£100,000) – In recognition of the fact that there are uncertainties in relation to timing and speed of progress of complex and strategic projects, the funding for these projects has been placed into a Revenue Development Fund from 2010/11 to enable the Council to retain flexibility in funding. The outstanding funding at the end of 2010/11 is £235,200 and it is proposed that £100,000 of this under spend is carried into 2011/12 and added to the Revenue Development Fund.
- Organisational Development Reserve (£3,986,600) – Every year as part of the outturn position officers review the funding within the

strategic reserve to deal with organisational change. It is proposed this year given the overall under spend to contribute an additional £4.0M into the Organisational Development Reserve which is used for restructuring, re-training, redeployment and redundancy costs in future years.

GENERAL FUND BALANCES

10. The General Fund balance stands at £17.4M and is used as a working balance and to support future spending plans. This compares to a balance of £19.8M at the end of 2009/10.

11. Commitments have been proposed which subject to approval by Council will leave an uncommitted value of balances totalling £4.5M in the medium term which is in line with the minimum level recommended by the CFO following a risk assessment of the required level to be maintained.

HOUSING REVENUE ACCOUNT (HRA)

12. The table on page 6 of the Financial Statements presents the Council's expenditure and income in a format that shows the net expenditure within the HRA compared to budget. This shows that the budget assumed a deficit of £389,000.

Actual net expenditure for the year is a surplus of £34,000 which compared to the budgeted deficit results in an under spend of £423,000. This is made up as follows:

	£M
Net Saving on Total Repairs	139
Savings on Supervision & Management	287
Savings on Capital Financing	221
Increase in Subsidy Paid to CLG	(101)
Reduction in Dwelling Rent Income	(120)
Other Variances	(3)
Total	**423**

CAPITAL EXPENDITURE

13. In 2010/11 the Council spent £126.8M on capital projects. This was £13.3M less than the approved estimates, due largely to re-phasing of expenditure which will now be incurred in 2011/12. Of this expenditure £93.2M related to the General Fund and £33.6M to the HRA.

THE COLLECTION FUND

14. The Collection Fund had a surplus for the year of £38,100. There was a surplus brought forward from 2009/10 of just over £4.0M, to give a surplus to be carried forward of £4.1M. When setting the Council Tax for 2011/12 in February 2011, it was estimated that there would be a surplus of £3.8M to be carried forward.

15. This estimated surplus was taken into account in setting the 2011/12 Council Tax and was shared by the City Council, Hampshire Police Authority and the Hampshire Fire and Rescue Authority in proportion to the precepts levied by each authority in 2009/10. This leaves a surplus of £296,700 that will be carried forward to 2011/12 to be shared between the precepting authorities in proportion to the precepts levied in this year. Southampton City Council's element will then be taken into account when the Council Tax for 2012/13 is set.

PENSIONS

16. In 2010/11 the Council paid an employer's contribution of £23.0M into Hampshire County Council's Pension Fund. The employer's rate in 2010/11 was 19.1% of employees' pay. The rate set for 2011/12 is 13.1% of employees' pay plus a fixed payment equivalent to 6.0% of the payroll as at 31 March 2010.

17. The Council's share of the assets in the Hampshire County Council pension fund at 31 March 2011 was £457.3M, compared to its estimated liabilities of £760.8M, giving an estimated deficit on the Fund of £303.5M (£409.0M in 2009/10).

18. In its budget on 22 June 2010 the Government announced that future increases in public sector pensions will reflect movements in the Consumer Price Index (CPI), effective from April 2011. Increases were previously determined by reference to the Retail Price Index (RPI).

19. The rate at which pensions will increase is one of the key factors in determining the liabilities of defined benefit pension funds. Any change in the rate at which pensions will increase will therefore affect the value of pension fund liabilities. The CPI differs from, and tends to be lower than, the RPI. The change from RPI to CPI has resulted in a reduction in the pension liability and therefore the pension deficit on the balance sheet. This £100.7M reduction in liabilities, due to the above change, has been accounted for as a (negative) past service cost, and has been treated as an exceptional item both within the Comprehensive Income and Expenditure Statement £90.8M and the HRA Income and Expenditure Statement £9.9M.

20 The deficit will be made good by taking into account anticipated changes in market conditions, levels of anticipated employee contributions and future employer contributions.

ACCOUNTING POLICIES

21. The Council's accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain, which is recognised by statute as representing proper accounting practices and meets the requirements of the Accounts and Audit regulations 2011.

22. The Accounting Policies are described in detail on pages 16 to 32 of the Financial Statements and cover such items as:

- Fixed assets
- Depreciation
- Pensions

- Accruals
- PFI contracts
- VAT
- Leasing

The Audit Committee will be asked to review the policies adopted and note the new policies adopted for 2010/11 under 'Accounting Issues and Developments' on page 9. However, it should be borne in mind that the majority of the accounting policies adopted by the Council are in line with CIPFA's Statement of Recommended Practice (the SORP) and the Audit Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.

RESOURCE IMPLICATIONS

Capital/Revenue

23. The capital implications are considered as part of the Capital Outturn report that is presented elsewhere on the Agenda. The revenue implications are considered as part of the Revenue Outturn report that is presented elsewhere on the Agenda.

Property/Other

24. There are no specific property implications arising from this report.

LEGAL IMPLICATIONS

Statutory Power to undertake the proposals in the report:

25. Accounts and Audit Regulations 2011.

Other Legal Implications:

26. None.

POLICY FRAMEWORK IMPLICATIONS

27. Not applicable. It should be noted that the Financial Statements are prepared in accordance with CIPFA's code of Practice on Local Authority Accounting in the UK.

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<u>SUPPORTING DOCUMENTATION</u>

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	None

Documents In Members' Rooms

1.	Draft Unaudited Financial Statements 2010/11

Integrated Impact Assessment

Do the implications/subject/recommendations in the report require an Integrated Impact Assessment to be carried out.	No

Other Background Documents

Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.		

Integrated Impact Assessment and Other Background documents available for inspection at:

WARDS/COMMUNITIES AFFECTED:	None

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DATE LAST AMENDED:	
Report Tracking	
AMENDED BY:	